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BANKING AS A PUBLIC SERVICE

BY
SIR EDMUND WALKER, C.V.O.

PRESIDENT OF
THE CANADIAN BANK OF COMMERCE
TORONTO

ADDRESS

*Delivered before the New York State Bankers' Association at
Buffalo, N.Y., 14th June, 1912.*

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We are daily reminded that we live in a time of rapid and often precipitate change. The sixty or seventy centuries of recorded history show countless evidences of man's desire for social improvement, but they seem to be only a long-drawn-out prelude to the nineteenth century, when for the first time the great basis of society, Inter-communication, was, by steamships and railways, by telegraphy and the post, perfected to a degree which warrants the belief that during the twentieth century the world will become practically one large society. It is not useful just now to express pleasure or regret regarding these terrific forces which are rapidly bringing to an end the local colour and the various idiosyncrasies of the world of yesterday, but it may serve our purpose to consider how the enhanced power of communication is rapidly causing the nations of the world to think alike on many subjects. The conversion of China to a republic, the establishment of old age pensions, workmen's insurance and a minimum wage in Great Britain, the growing strength of the Social-Democrats in Germany, the Initiative, Referendum and Recall, and still later the proposed "recall of decisions" and "recall of judges" in the United States—all in half a decade—are striking evidences of what a world harnessed by steam and electricity for the purposes of communication is likely to essay. The spirit of unrest evident in many countries besides those referred to is, as

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we know, working at the roots of established institutions wherever they exist and whether public, semi-public or private. Unfortunately the result of communication is not necessarily to make men wiser, it mainly tends to make them more alike — to spread abroad ideas both of wisdom and of folly. One must be blind not to see that much of the unrest is due to the unfair advantage possessed by the strong over the weak, and we must be equally blind not to see that much of it arises simply from the hatred of ability and success by the thriftless and incapable. The just man is troubled because it is clear that in the main the legislator is not so much concerned to equalize opportunities of success for men's efforts as to please the majority of the voters. Whatever we may think of the system of government which makes it possible for the least capable to rule, it is the condition under which we live at the moment. One of the active shapes in which the present unrest shows itself in the United States is by attacks upon corporations which by methods, mainly quite legal, have acquired a position which gives or seems to give them that unfair advantage of the strong over the weak to which I have referred. In pursuing these so-called trusts an indiscriminate hatred of corporations seems to have arisen and naturally the banks have not entirely escaped. Mere dislike of consolidated wealth, as such, is of course as old as the history of banks and other industrial corporations, but the desire to regulate the activities of privately established corporations in the supposed interest of the public, while not new in theory, has not been an element of disturbance in the conduct of corporations in the United States until recently.

It is clear that the industrial work of the world will continue to be done by the aid of capital invested through corporations. Socialists may have in mind different machinery for the same purpose, but as bankers we are not likely to disagree as to the function in society of the joint-stock corporation. It is true, however, that proper relations between such corporations and the public need to be

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established. The basis of such relations should be arrived at by the exercise of good nature and common sense and especially by the determination on both sides to insist on fair-dealing. No matter what may be the rights under its charter of any corporation performing a public service or dealing in an article of wide consumption, its true interest and final profit will be found in dealing fairly with the people and no matter how great the profit exacted in the past or how complete the monopoly established, the people will only do well by themselves, and secure justice when they confine themselves to punishing acts which are criminal and not when they legislate so as to destroy property legally created and in innocent hands.

The demagogue, remembering that votes count, and that the modern State is governed not by the wisdom of statesmen but by the mere *desire* of the majority, urges the people to conclude that the decisions of the Supreme Court, or for that matter, I suppose, the Ten Commandments, have no binding force if the people wish otherwise. Against these modern opinions it may be well to consider the point of view of corporations for the last two or three centuries. In England when the King had or assumed to have complete power, he granted to a subject what was frankly called a monopoly conferring the exclusive right to sell or make some kind of article, or to carry on some form of traffic or finance. Except in the matter of patents for invention the people always disputed such action by the King, and in England because of the numerous monopolies and franchises granted by Elizabeth a Committee of Grievances was created by the Parliament of James I., and in 1623 the Statute of Monopolies was passed, and many of the monopolies were cancelled. Out of this was built up the system of Letters Patent. After that the Sovereign in granting any "dignity, office, monopoly, franchise, or other privilege to the patentee," did so only "after due consideration and in a form accessible to the public" and used the form of Letters Patent to incorporate bodies by charter. Privileges thus granted by King and Parliament

were undoubtedly exercised to the fullest extent and without much regard for the public, except perhaps when complaint, always persistent, seemed dangerously so. Unless the Sovereign received some consideration, however, a franchise or monopoly could be construed in a sense favourable to the grantor and not the grantee, and if the Sovereign had been "mistaken" or had been deceived in granting it, it could be cancelled.

The State still, after due consideration of the interests of the public and with regulations as to information to be afforded to the public, grants such rights and privileges to corporations and it will doubtless continue to do so, but at present in the United States these privileges are granted with distrust and an increasing desire rather to curb than to help the enterprise seeking corporate powers. In many countries laws have been passed which cause all charters in particular industries such as Railways, Banks, etc., to be alike, and when changes in such general laws are necessary the interest taken in the matter is sometimes more widespread than intelligent, and the needed legislation cannot be obtained without serious delay.

The main cause of this distrust is doubtless the illegal or doubtfully legal, and in any event unjust, acts of many powerful corporations, but almost as powerful a cause has been the exaction from the public quite legally of an abnormal profit merely because the tariff on a partial monopoly, or some other failure in competition, made it possible to exact such a profit. Now the attitude of this latter type of corporation is just that inherited from the earliest owners of monopolies, or franchises granted by the King. They are making use of rights granted to them by the State and if what they do is legal who, they ask, has the right to complain? But there have been men in all ages wise enough to know that this is not good reasoning. Whatever at any moment may be the artificial basis of society, the only promise of permanency lies in fair dealing. It is true that men will never agree precisely as to what is fair, and that enterprise would die if men did not keenly desire to

make money, but there is a measure of reason in most men which should show them when they are exacting an abnormal profit merely because they have the power—for when they *are* doing so there is danger. In the face of modern discussions and legislation much less reliance can be placed in mere legal rights than in the past. What we may hope to rely on is a relationship between corporations and the public which is mutually advantageous, and in the long run this will be produced and will be found more profitable than the condition of warfare through which we are passing.

It will be interesting, in this time of unrest, to consider the position of banking in the United States and Canada, almost all of which is carried on by joint-stock corporations. Ever since the creation of the earliest banks in Europe banking has been a most fruitful subject of more or less academic discussion both regarding the business itself and its relations to society, but this has not been accompanied by much actual hostility to banks. In the United States, however, the history of banking begins during a period of suffering from worthless fiat-money issued by the State under colonial and later conditions. This was aggravated by the struggles for centralized or national as opposed to local banking. The people's earlier fears regarding paper money were soon justified by the frequent failure of banks issuing credit currency, and the money available for loans being always insufficient the people developed a dislike of banks which has never passed away. As a result of this dislike banks with branches, which promised to be great arms of finance to the State as well as most useful servants to the people, were refused the renewal of their charters, while in later history we have witnessed a struggle for currency and banking reform, accompanied by more literature and discussion than has often been created by any proposed legislation, which is still waiting on the will of the coldly indifferent public, even if the promise of success is greater at the moment than in the past. In Canada there has always been a great deal of discussion about banking, but except at times when loss has come from the failure of a

bank there has been little feeling shown against banks as a whole until during the past two or three years. This is partly due to the failure of some banks attended by unusual scandals and to the curious desire of the losers to blame the other banks as if they were all somehow responsible for the behaviour of each other. Another cause, however, is the large borrowing requirements of our new western provinces. Here we have rapidly increasing communities of people full of enterprise out of all proportion to the capital they possess, a repetition of the conditions attending the settlement of your western states, except that in our case the number of new-comers is enormously greater relatively to the population already existing. There is the strange notion that it is the duty of the banks always to have money to lend, and there is the sharp difference of opinion as to the prudence of making many of the loans required because the bank thinks it has learned the limits of safety which must be observed. There are therefore enough people who have been refused help by a bank to cause considerable discontent, and some borrowers in thinly settled parts of the West where it is difficult to pay the expenses of a bank, who see no reason why they should pay more interest than in Toronto or Montreal. It is true they pay more for almost everything else they buy, but that is forgotten when they launch their complaints against banks. In meeting discussion regarding the business of banking, or mere unreasoning animosity against banks, we are somewhat more fortunate than you are in the United States. By what was merely accidental at first we have settled down to the practice of a decennial revision of the Bank Act. In both countries we work under general Bank Acts but with us banking is under Federal control alone. The charter of no bank runs for more than ten years and all expire at the same time. Revision of the Act is of course not actually demanded at this moment but it is natural, and the habit is so settled that should the Government be unable to take up the discussion of the Bank Act in the session preceding the expiry of the charters, the charters are not

renewed for the ten years, but merely for long enough time to permit of the discussion and amendment of the Act. Whatever we may have to face in the future and, of course, we are but a young country with relatively small affairs as yet, this decennial revision has been of great value to the country as well as to the banks, thus far. At such a time everyone has the chance to express his opinion, and when the new Act is passed there is a general feeling that things have been settled for the next ten years although of course any subsequent parliament may do what it pleases with the Act. The banks naturally take a large part in the discussion though whenever they propose reforms they are generally treated as if they were seeking additional favours. As a matter of fact, however, every great reform in our system in the last two revisions has been proposed by the banks and they are all reforms in the interest of the people. In no case in recent years have the banks asked for an extension of their powers because such new power would be a new source of profit. It is of course true that any reform in the practice of banking which improves the service to the people will incidentally make profit for a bank by increasing the number of transactions, but that is surely just the mutuality of interest that society desires to establish. I fancy we are as selfish as any other body of bankers, but we have at least learned that the only safe plan for preserving the right granted by the people to carry on the business of banking is to give them the best possible service of banking. In the United States as the charters of banks working under the National Bank Act expire at irregular dates, there is no special period when revision of the Act is natural, and while this is not the reason why reforms have been difficult to obtain, there might have been some advantage in a periodically enforced discussion of the subject of banking at Washington.

Regarding banking as a more or less public service let us consider how the people are served in the matter of bank establishments. Mr. Eckhardt in his book, "A Rational Banking System," published in 1911, says that in the cities

of the United States there is one bank to every 9,700 people and in Canadian cities one to every 3,100 people. The larger number proportionately in Canada is due to the many branches of banks in the cities. For instance, there are 151 branch banks in Toronto, 101 in Montreal, 49 in Winnipeg, and 62 in Vancouver. If we take city and country together we find that in the United States there are say 27,000 banks and 92,000,000 people or one bank for 3,407 people. In Canada there are 27 banks with 2,641 branches, and calling the population 8,000,000, there is one bank for every 3,029 people. It cannot surely be urged that the systems of banking in the two countries have failed to provide satisfactory service so far as it can be judged in this manner. In both countries there is very keen competition. In Canada, while thirty years ago we waited for a town to have a fair-sized population, say 2,000, before opening a branch, to-day confidence in the future of our West is so great that bank offices spring up at the divisional points of railways through absolutely new country, along with the first shopkeepers, and during the past year several branches have been established in the Peace River country of Northern Alberta, hundreds of miles in advance of the railroad. Of course such branches will not pay for a year or more, but a carefully administered Canadian bank should have a clear idea as to how much of its present profits it will spend in such development. Not only will it suffer if it has not enough breadth of view to make the present sacrifice, but if all banks took the narrow view and held back, we should soon hear from the people who expect us to do our share in developing the country. During the past ten years of development in the Canadian West the banks have been second to no other branch of industry in this work, and it is quite safe to say that in the history of the world no other settlement of people over great areas of country has ever been accompanied by such banking facilities.

A comparison is, however, often made between the value of the service rendered to the public by a bank of the individual

type in the United States as compared with a branch bank in Canada. It is urged that the bank in the United States has only the interest of its own community to work for and that under such conditions it will be more willing to aid local enterprises than a branch bank in Canada. This statement is like some of the poetry in "Alice in Wonderland"; it sounds true but I think I can show that it is not. The Canadian branch manager is as keenly seeking for advancement as his American cousin. His progress depends on the good business he can secure. Competition between banks for business is carried on so fiercely that too free lending at branches is apt to be the result. In our own bank every manager prepares once a week a report on the business conditions, weather, crops, volume of business, new industries, failures, etc., of his district, and as he knows that success only comes to those who identify themselves with their districts, his business life is spent in trying to do his part in his particular community. But it will be argued that he may not be able to enforce his opinion upon his head office. When it comes to the matter of judgment regarding the soundness of the business proposed he will certainly sometimes fail because his head office will have a much wider range of information regarding any particular branch of trade than he is likely to have, but if the transaction is sound his head office will desire the business so long as the bank has the money to lend. That the head office of any Canadian bank is likely to favour the East as compared with the West, or large cities as compared with small, or the city where the head office is situated as compared with other places where it has established branches is, I think, quite at variance with the facts, and certainly quite opposed to the true interest of any bank. Hundreds of the largest bank credits in Canada are granted at places far from large cities and where it would be quite impossible for a local bank to grant any important percentage of the credit required. Doubtless there are many men in Canada who have tried to start ventures in small places, who feel sure that had there been a local bank with its board to appeal

to they would have succeeded. They do not consider the far greater number of men with uncertain ventures who have been refused loans by banks in the large cities. The Canadian bank wants practically all the good business it can secure, but in a time of rather rash inflation the judgment of the bank is apt to be too conservative to please the public, although perhaps not always conservative enough to secure safety.

There is one respect in which the possibility of the branch of a Canadian bank being able to serve its community better than a bank in the United States, should be specially referred to. A Canadian bank is a great clearing house into which its deposits from all Canada pass and out of which its loans to all Canada are taken, without any effort being necessary to transfer the surplus money in one locality to another locality where there is a surplus in loans over local deposits. Thus if the branch manager establishes a credit for a new industry it is not necessary that he shall find the money at home, and in fact in many cases this could not be done. The surplus money in many localities in the United States finds employment through the efforts of note-brokers who have undertaken to find money for ventures which cannot be secured where the ventures exist. Certainly the transference of surplus lending capital from one place to another is done more readily under our system, and I think it is fair to conclude that we have better machinery for lending the money securely and for dispersing it fairly as to localities, than by working through note-brokers.

Whatever may be thought of the peculiar merits of the two systems of distributing loanable capital, and this I fancy is the most important service to the people that we perform, it cannot be urged by the corporation hater that it is not well done in both countries. Well done does not, however, mean that it is desirable that it should be easy to secure money. It is just as much our duty to refuse at one time as it is to comply at another. In performing this service, therefore, more important even than the possession of the required loanable capital, is the ability to judge as to the

soundness of the credit. The ability and persistent effort put forth at the present time by the credit departments of the banks in the United States and by the note-brokers are beyond all praise, and I think it can be safely said that regarding almost every new enterprise from the small shop-keeper to the great manufacturing establishment, some banker has ascertained the facts upon which to base a credit. Our system, which has been fully described elsewhere*, produces the same result, and in the matter of grading the credit of business men so that they may have fair treatment as borrowers, while we are not likely to agree precisely with the borrower, I think we may in both countries feel that we have done well by the public.

If it is an important service to the country to equalize, as far as possible, the distribution of loanable capital throughout the country, it is clear that a corresponding service will be rendered by the securing of deposits from the people so as to make every otherwise idle dollar effective for the progress of the country. In the main the banker is eager to obtain deposits in proportion as he finds that loans are required, and thus the matter seems to settle itself. But unless the machinery is in existence for distributing the loanable capital so that it will easily flow from where it is not needed to where it is, there will not be that pressure to obtain deposits which results in leaving the minimum amount of money idle in people's pockets. In both countries by the use of cheques for the payment of the smallest debts, and the consequent extensive development of the clearing-house, we have conserved loanable capital to a much greater extent than in most other countries, but there are some interesting differences in the attitude of banks towards deposits in the two countries. In the United States, National and State banks with exceptions which we need not discuss, do not pay interest on deposits, and this fact is often announced as something sound in principle. The man who has saved a small sum is thus left largely to the Savings bank. The Savings bank is often

*NOTE.—"Banking in Canada." Address by present speaker before the Institute of Bankers, London, England, 1911.

managed by trustees who naturally invest these deposits only in such bonds and mortgages as involve the least risk and the least trouble in re-investment. In the crowded East this is well enough, but even there everyone cannot reach a Savings bank. In other parts of the country the Savings bank lends part of its deposits in ordinary commercial banking because the money is more needed for that purpose than for mortgage loans or local issues of bonds. It is possible in the large centres to sell mortgages and bonds created in smaller places but it is not so easy to obtain commercial loans in that manner. It is true that the note broker exists to obviate such difficulties but he can only help the well-established borrower, whose less important brother borrower must obtain help at home or not at all. That the machinery for securing every deposit available is not sufficient seems to be evident from the success of your Postal Savings System.

In Canada deposits are gathered by four classes of institutions: 1, The Chartered Banks; 2, Special Savings Banks; 3, Mortgage Loan Societies; 4, Government Savings and P. O. Savings Banks. The total is very small as compared with the United States but in Dec., 1911, it amounted to \$1,160,449,925. The percentages gathered by the four classes of institutions are as follows:

1. Chartered Banks.....	89.6
2. Special Savings Banks.....	3.3
3. Mortgage Loan Societies....	2.2
4. Government Savings.....	4.9

100.

It will be seen that the Chartered banks hold about 90 per cent. of the deposits and these are not to any extent deposits in one bank from another, but are essentially the deposits of the people and their industrial institutions. Such a large percentage of the total deposits has been secured by having in each branch of a bank a Savings Bank Department, so that while the Canadian bank is as unwilling as a bank in the

United States to pay interest on an ordinary current account, it is willing to take any deposit literally from one dollar upwards upon the terms of its Savings Bank Department and pay interest thereon. Because of this there are only two important Savings banks of the ordinary type in Canada. These are in Montreal and Quebec, and serve mainly Canadians of French origin. For similar reasons the deposits with the two kinds of Savings banks carried on by the Government have increased only 45 per cent. in 20 years while the deposits of the Chartered banks have increased 560 per cent. I think therefore that it must be admitted that with the Savings Bank Departments, through which the small depositor in a remote village may secure the obligation of a great bank, and the branch system as applied also to lending money, we have created a most excellent public service for the securing of loanable capital and its equitable distribution. If, however, the small amount of deposits gathered in Canada by the Special Savings banks and the Mortgage Loan societies represented all that was available for land banking as compared with commercial banking, the situation would be far from satisfactory. The lending of money on farms and other classes of real estate is fortunately well organized. The Mortgage Loan societies are established mainly to obtain loanable capital in Great Britain and their few Canadian deposits are merely an incident in a larger business. They have throughout our West effective branch establishments or other machinery for securing loans. But whereas 25 or 30 years ago they nearly controlled the land-banking of Eastern Canada, they now compete with large life insurance companies, numerous trust companies, wealthy private estates, and even organizations of French, Dutch and other foreign capital, bent on securing loans mainly against the farms in our new western provinces.

Much more might be said as to the service performed by the banks for the development of the two countries. The question of an adequate and sufficiently elastic supply of currency is certainly as important as anything I have dealt

with, but all that I could offer has been said so often*, and there are so many papers on the subject in our bank libraries, that I am sure it is best to refrain.

My main purpose in addressing you is to urge—not merely because modern democracy is sure to demand it but because from any point of consideration it is the wisest course—that we bankers in the study of whatever reforms are necessary in the respective systems under which we work, think of our business as a more or less public service for the conduct of which we are somewhat responsible to the community in which we live as well as to our shareholders. Oddly enough while I was preparing this paper I found the following from the introduction by Prof. Foxwell to the English edition of Prof. Andréadès' "History of the Bank of England." Prof. Foxwell had in mind banks of national importance, but the text will apply in some sense to all of us and with it I will close.

"In modern times the public or national character of a bank is mainly important in so far as it may be a guarantee that the bank will safeguard public interests; that is to say, will realise that its chief duty is to the business world rather than to its shareholders, and its chief purpose to maintain financial security and stability rather than to make profit."

*NOTE.—Address by present speaker, N.Y. State Bankers' Association, Saratoga, 1895.

